

# ***Acquisition Reform Acceleration Day***

## ***DCM Baltimore***

***May 23, 2000***



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## ***Paperless Contracting and Payment Issues***

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***Contract Specialist  
Contract Business Operations***

# Paperless and Payment Initiatives Overview

- **Paperless Contracting Overview**
- **Wide-Area-Work-Flow (WAWF)**
- **Web Invoicing System (WInS)**
- **Electronic Data Interchange (EDI) Progress Payments**
- **Performance Based Payments**
- **Revisions to Contract Financing Policy**



## ***What's behind "Paperless Contracting"***

- 1. Moving with industry into Electronic Commerce  
Electronic Data Interchange (EC/EDI)**
- 2. Eliminating the expenses of handling and storing  
paper**
  - Copying . . .***
  - Filing. . .***
  - Archiving and disposing of it.***
- 3. Better financial management for***

## Financial Management Issues

### Unmatched Disbursements (UMDs)

- *disbursements which can't be matched to original obligations*

### Negative Unliquidated Obligations (NULO's)

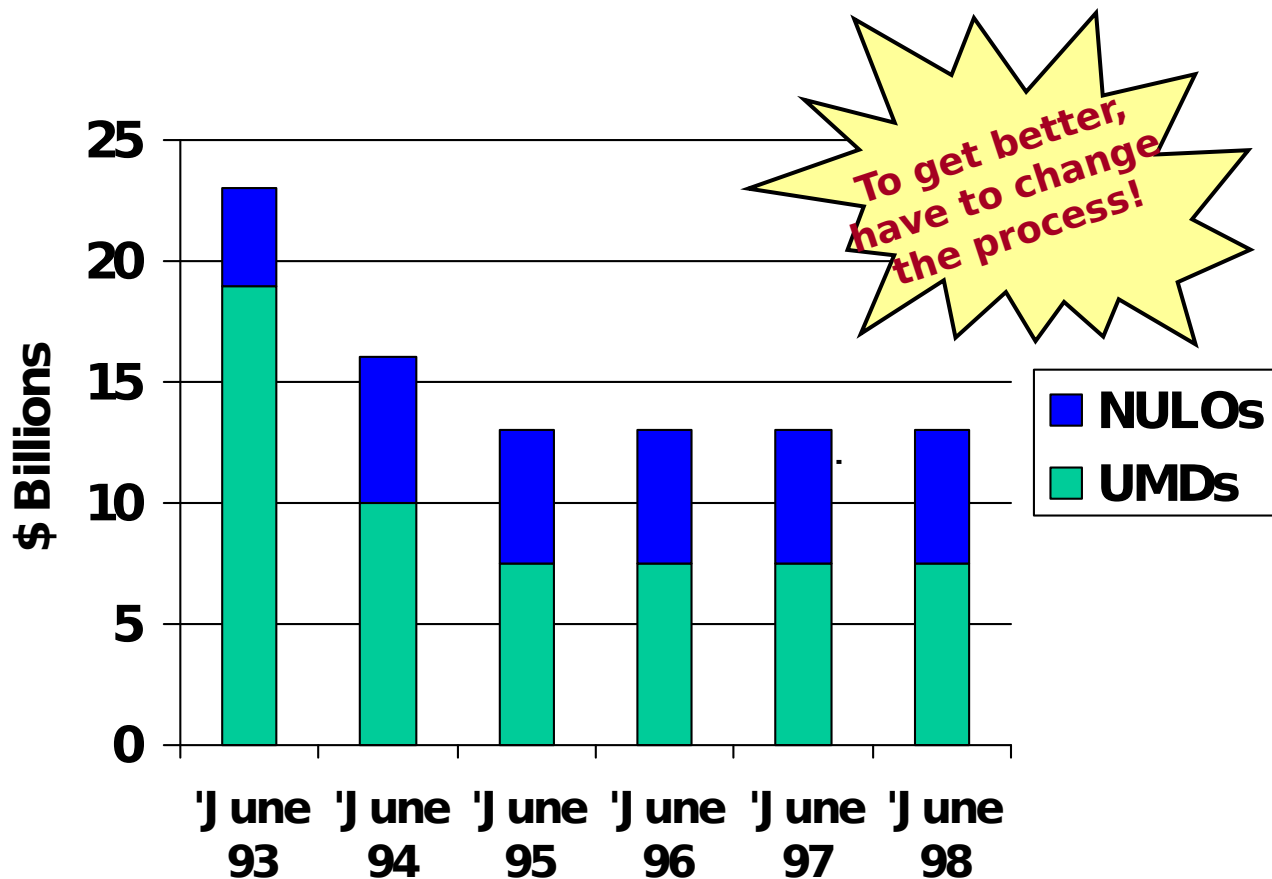
- *disbursements which have been matched, but exceed original obligations*

### Payment Errors (Over- and Under-Payments)

- *disbursements made in wrong amount*
- *or, from wrong account*



## The Size of the Financial Management Issue



*Contracting actions account for about 1/2 of all UMDs and NULOs*

- **Key Issues for DoD**

*Unmatched Disbursements*

*Negative Unliquidated Obligations*



***Paperless Contracting is an important building block for the s***

- **Brings other benefits, too:**

*Gets rid of paper handling and storage*

*Brings standardization to, and across the Department*

- **Builds better communications!**
- **Makes everything much easier, for everyone!**

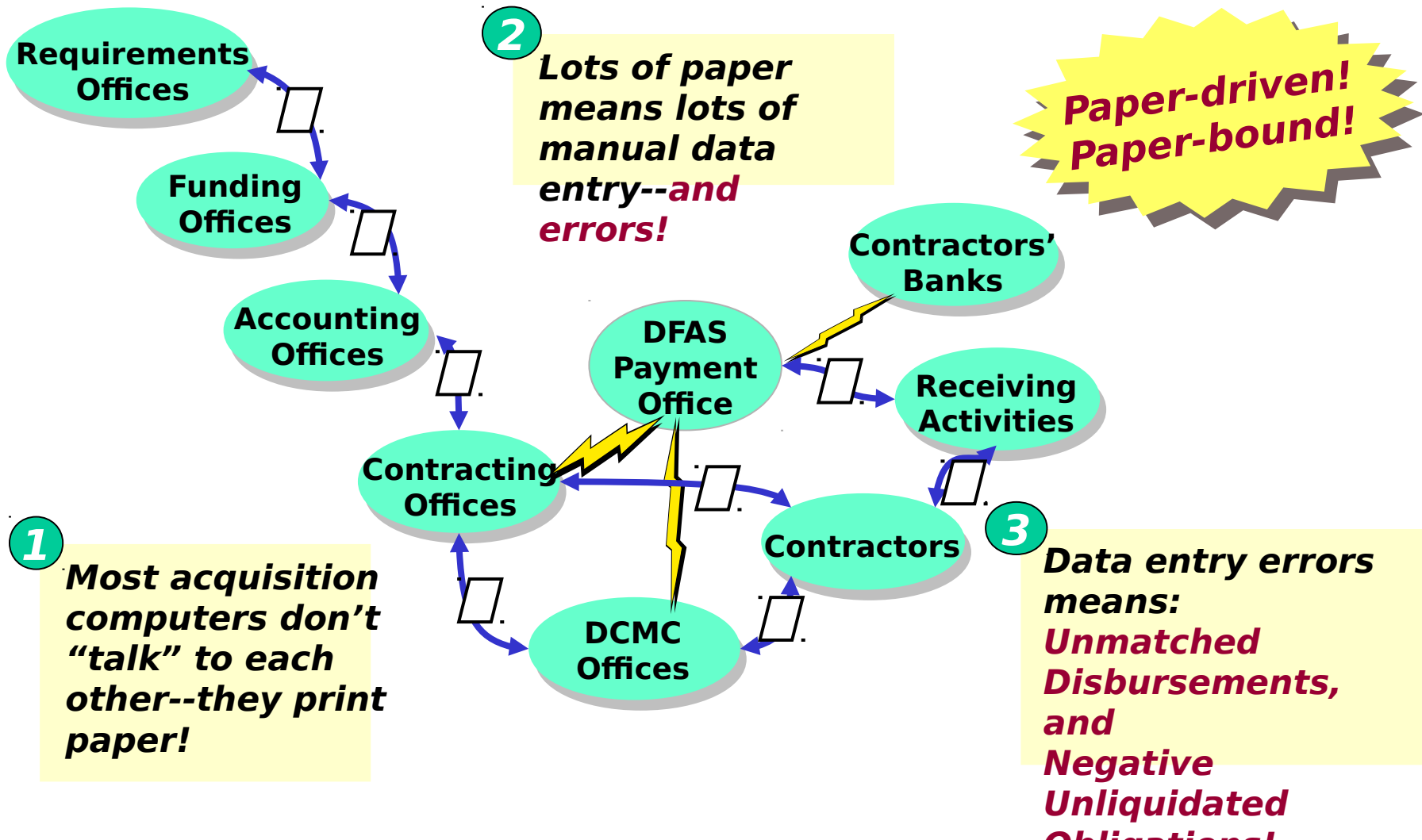
*Allows us (DCMA) to spend less time on financial management issues*

- **Reconciliations**
- **Payment problems**



# End-to-End Procurement Process

*Acquisition as it has been . . .*

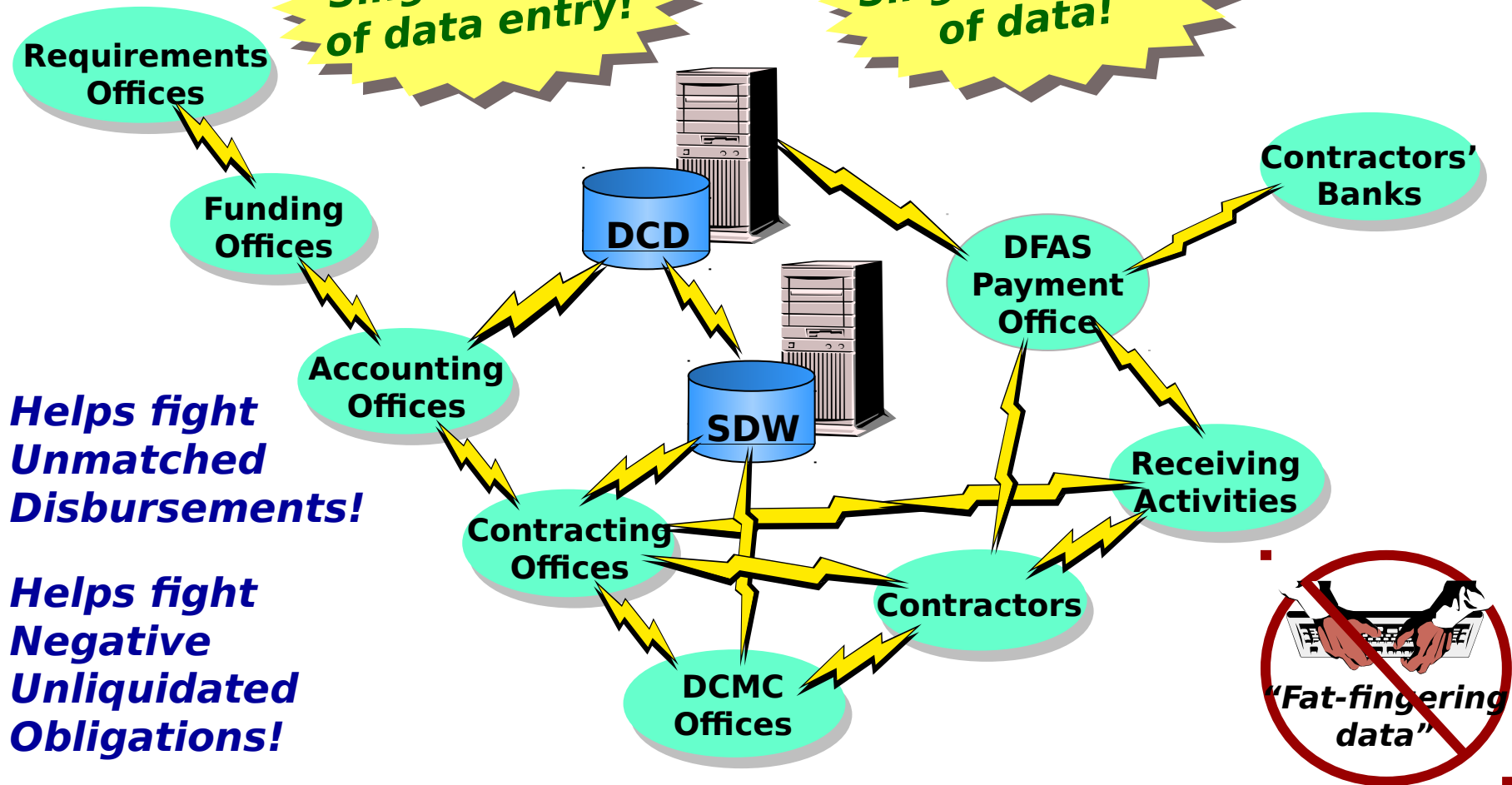


# End-to-End Procurement Process

## *The Paperless Acquisition Vision*

**Single points  
of data entry!**

**Single sources  
of data!**





# End-to-End Procurement Process

## *Key Participants*

**Over 150 DoD and Industry participants!**

### **DCMA and DFAS Co-Chairs Services/Agencies (including JECPO)--**

**Program Management    Financial Management  
Contracting                Accounting  
Payment                      Logistics**

### **Program Management Offices--**

**Standard Procurement System/Shared Data Warehouse  
Defense Procurement Payment System  
DFAS Corporate Database/DFAS Corporate Warehouse  
Wide Area Workflow**

### **And, the contractors for the Systems--**

**American Management Systems  
Oracle  
Electronic Data Services**

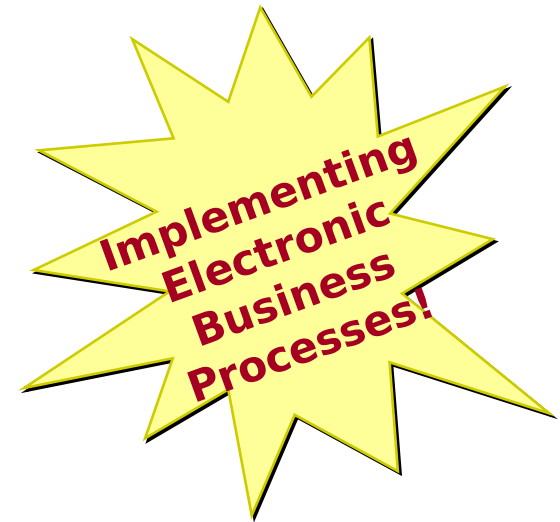
### **Plus, the SPS Requirements Board!**



# Paperless Contracting Initiatives

## Other Paperless Initiatives

- **Wide Area Workflow (WAWF)**
- **Web Invoicing System System (WInS)  
Progress Payments**
- **ACO Modifications Module**
- **Electronic Document Workflow (EDW)**
- **Standard Procurement System (SPS)**



## Wide-Area-Work-Flow GOALS

- **Develop and deploy DoD-wide!**
- **100% Integration of acceptance, payment, financing, closeout, and receiving processes. . .**

**. . . with acquisition and logistics systems**

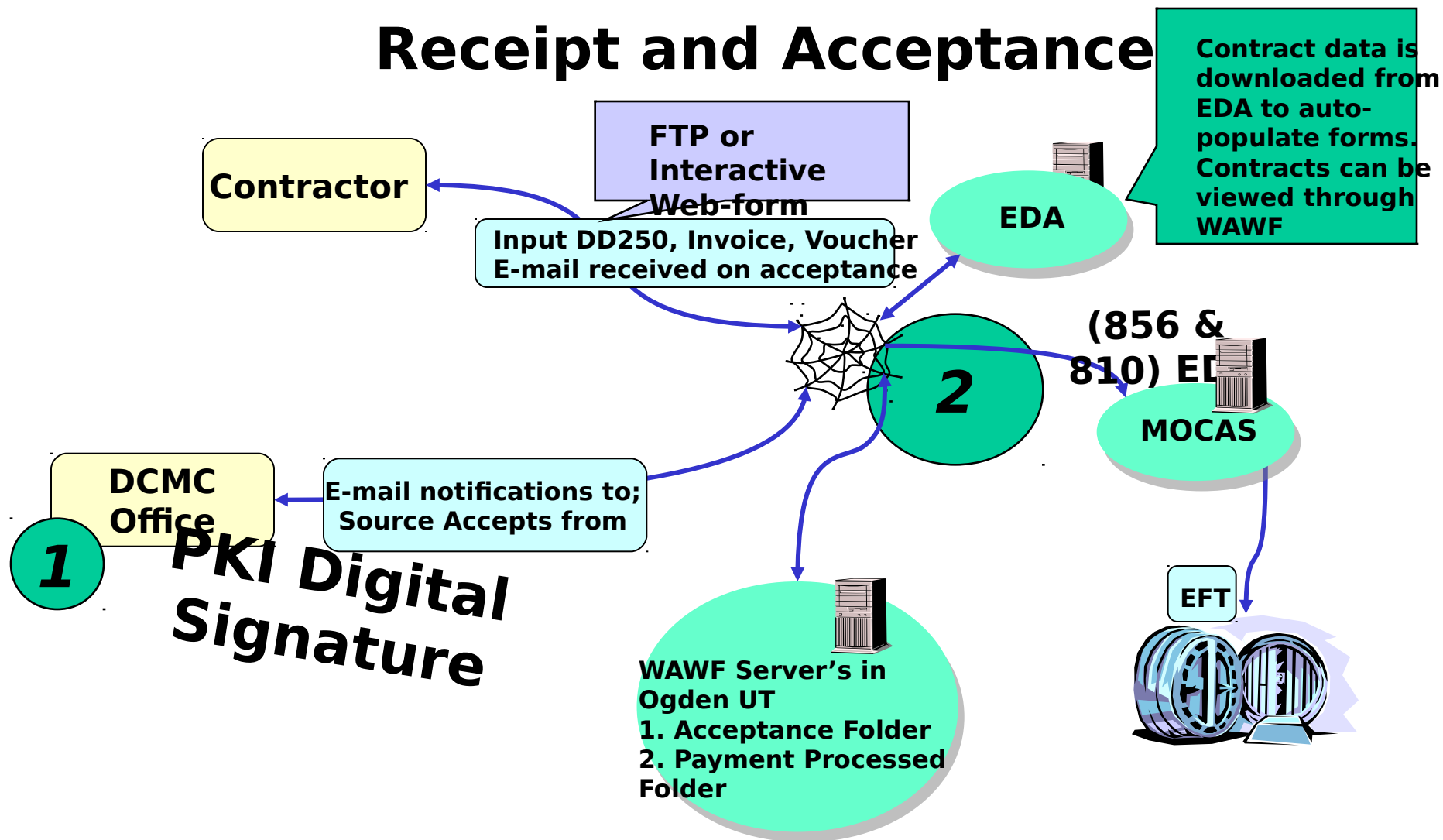
**Prototype is an 80% Solution.**

**Receipt will make 100%**

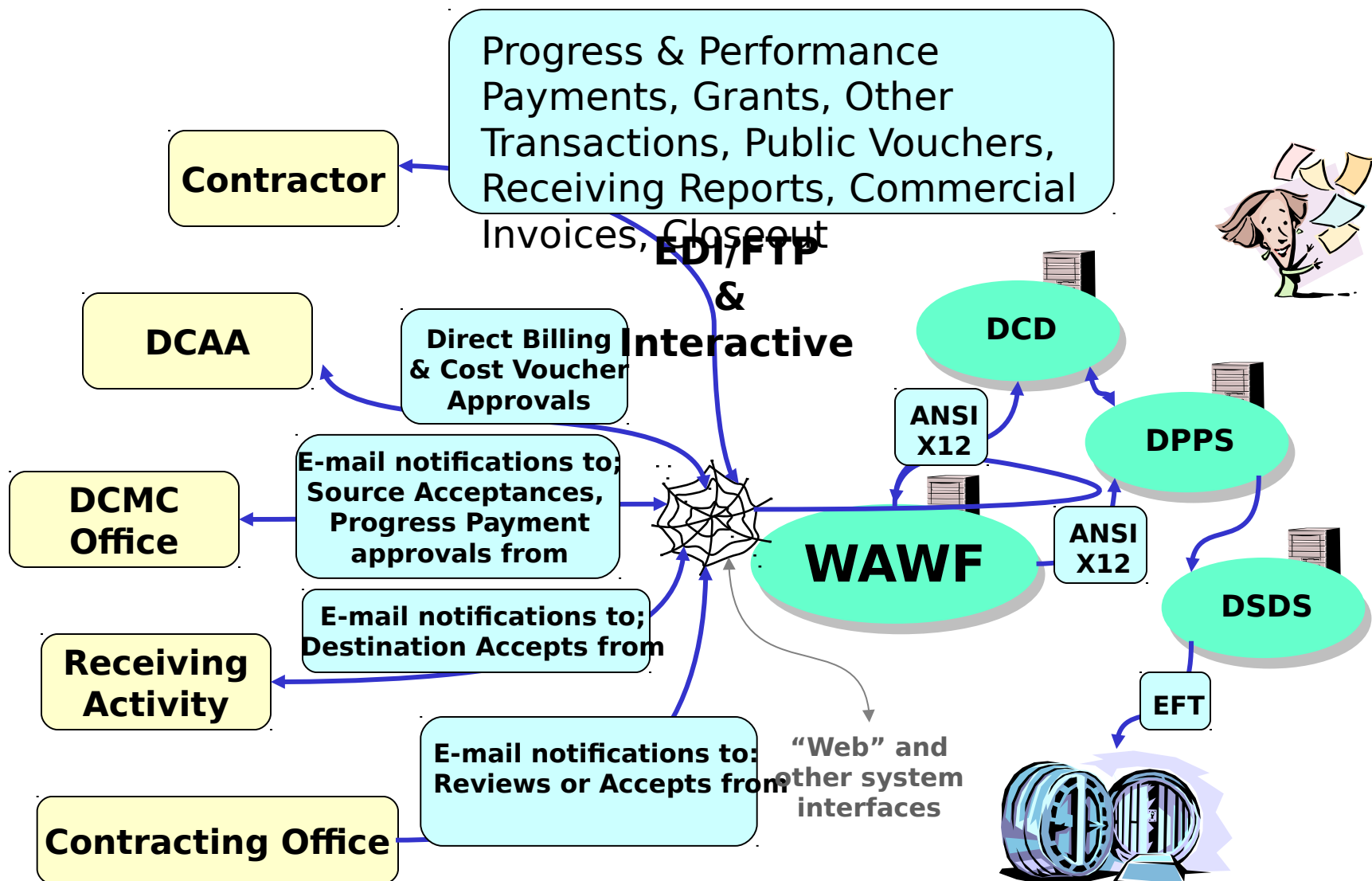


# WAWF DCMC Administered Contracts

## Receipt and Acceptance



# Wide Area Workflow (WAWF) “To



- **Corrected DD250s, Ship Shorts, and destination mapping estimated by Oct 2000**
- **MOCAS Rejects will happen (as they do today)**
  - **but WAWF makes the fix easier**
- **DOD developing plans to use at all DOD activities**
  - **paper copies will be necessary during transition**

- **DCMC Phoenix**
  - **Boeing Mesa**
  - **Honeywell (Previously AlliedSignal)**
  - **Motorola**
- **DCMC Raytheon (Tucson)**
- **DCMC Cedar Rapids (Rockwell Collins)**
- **DCMC Philadelphia (5 Businesses)**
- **DCMC Boeing (Philadelphia)**
- **DCMC Clearwater (5-8 Small and Large Businesses)**
- **DCMC Americas**
  - **Canada (CCC)**
  - **Puerto Rico (2 Contractors)**

- **October 2000 - Feb 2001**
- **Districts will devise accommodating schedules for each office.**
  - **Based on DD250 volume in geographical areas**
  - **Out of schedule requests will be taken on a case by case basis**
- **Training will be provided by District FASST Teams**
  - **Electronic Commerce Resource Center will assist FASST as funding permits**
    - **1/2 Day training for DCMC**
    - **Contractors training will be provided by:**
      - **ECRC Conferences**
      - **Computer Based Online Modules**
      - **Users Manuals**

• **SUCCESS DEPENDS ON ACTIVE CAO OUTREACH TO**



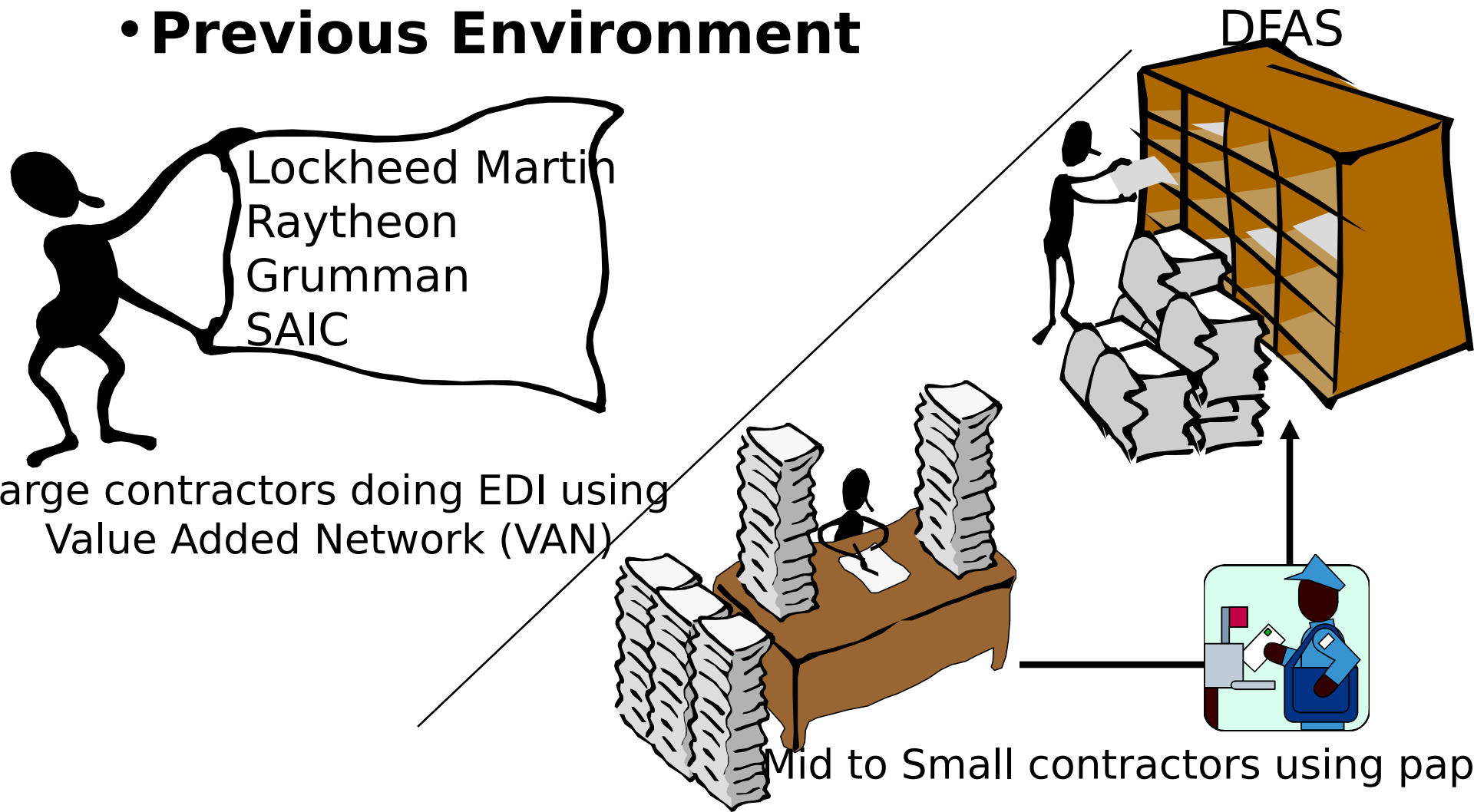
- **LT COL Paul Yandik, email: [pyandik@dcmchq.dla.mil](mailto:pyandik@dcmchq.dla.mil)**
  - **Director, DCMC Paperless Center**
  - **Commercial (703) 767-3441, DSN 427-1274**
- **Mr. Kevin Koch, e-mail: [kkoch@dcmchq.dla.mil](mailto:kkoch@dcmchq.dla.mil)**
  - **DCMC Paperless Contracting Center**
  - **Commercial (703) 767-6398, DSN 427-6398**
- **Mr. Bartley F. Hogan, email: [BHogan@dcmde.dla.mil](mailto:BHogan@dcmde.dla.mil)**
  - **DCMDE FASST Team**
  - **Commercial (617) 753-3359, DSN 955-3359**
- **<https://wawf-ra.slidell.disa.mil> (Website for training on WAWF)**

- Description
  - WInS, developed by DFAS to enable the current small to medium size contractors to send invoices electronically via the Internet. The application's use is provided at no cost to the contractor.

***Many large contractors use it also***

# WInS - The Need For Web Capability

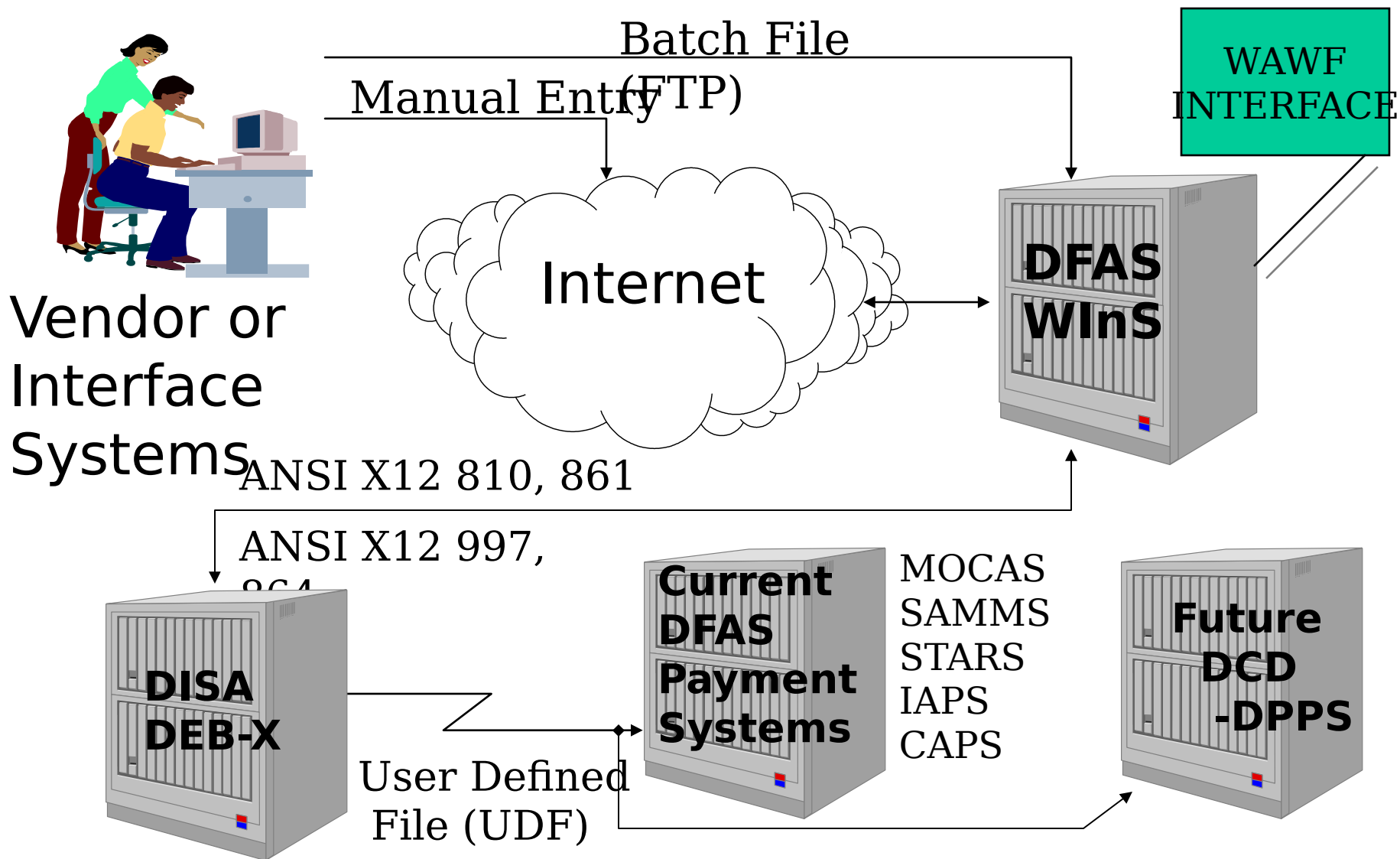
## • Previous Environment



# The Need For Web Capability

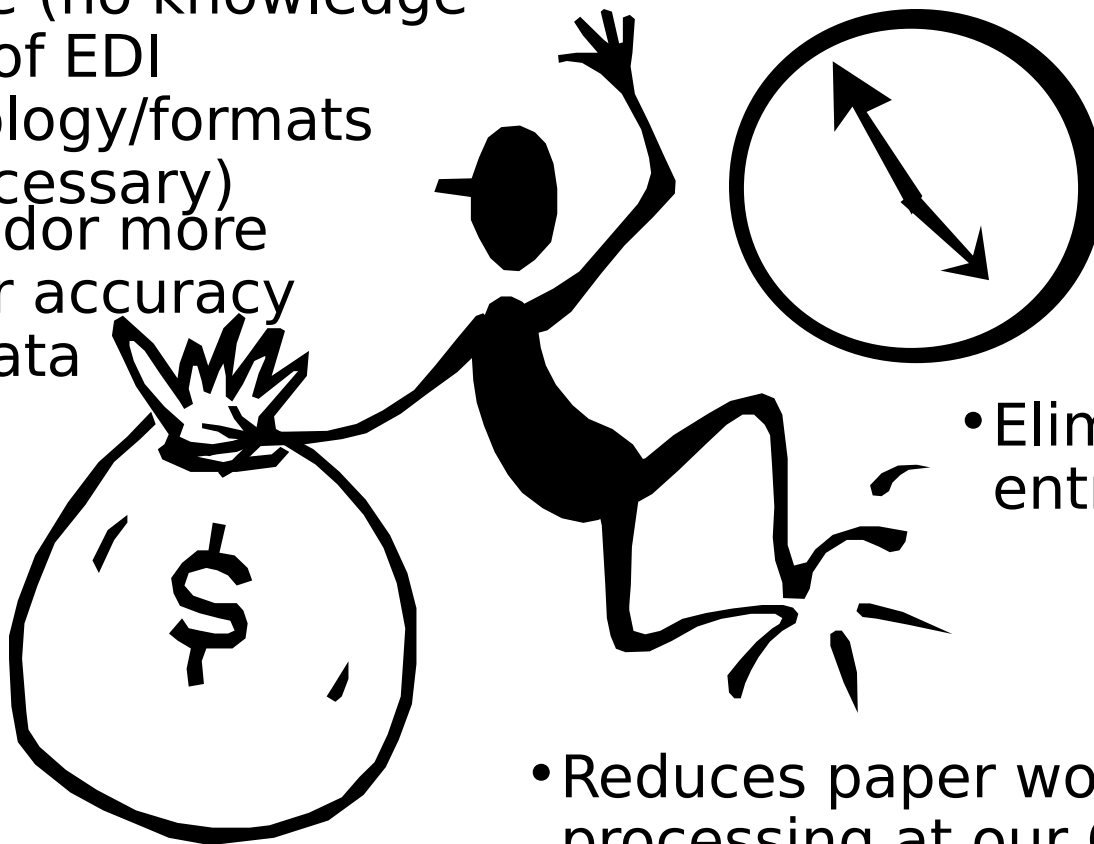
- **Why are Mid to Small size contractors not doing EDI?**
- May require changes to their system
- Hard to understand EDI formats, rules, etc
- Lengthy process to get started
- Cost

# WInS Processing Flow



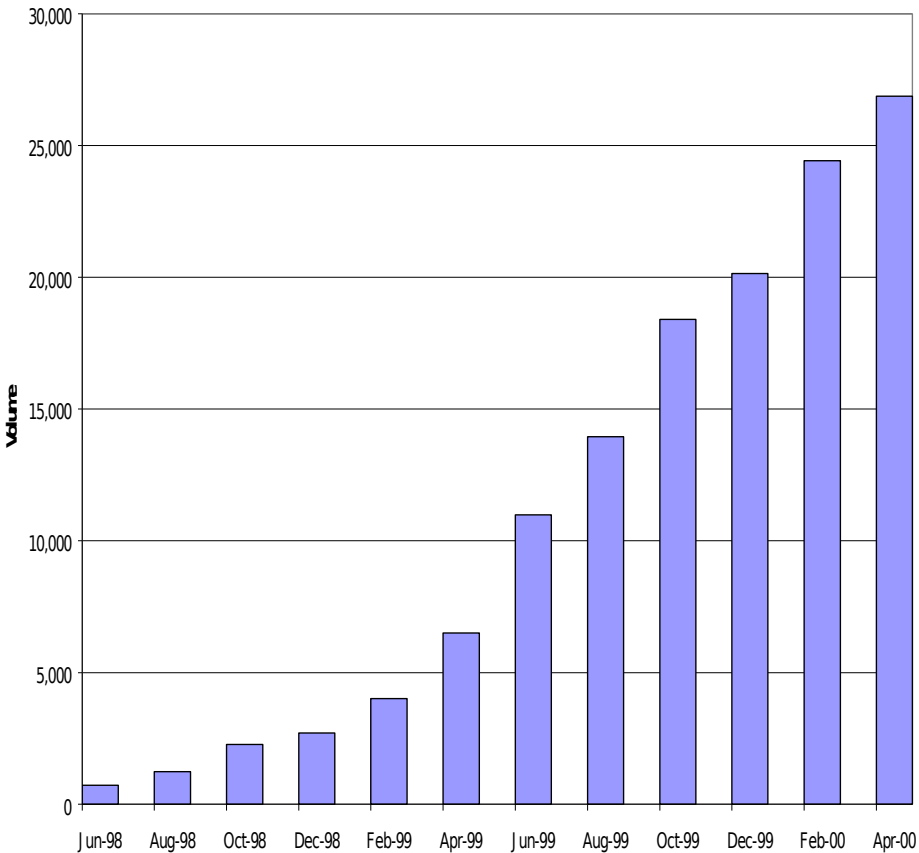
# Web-based Invoicing Benefits

- Easy to use (no knowledge of EDI terminology/formats necessary)
- Allows vendor more control over accuracy of data
- Eliminates lost and slow mail
- No software to buy for vendor
- Eliminates re-key entry errors
- Reduces paper work processing at our Centers
- Vendor cash management benefits

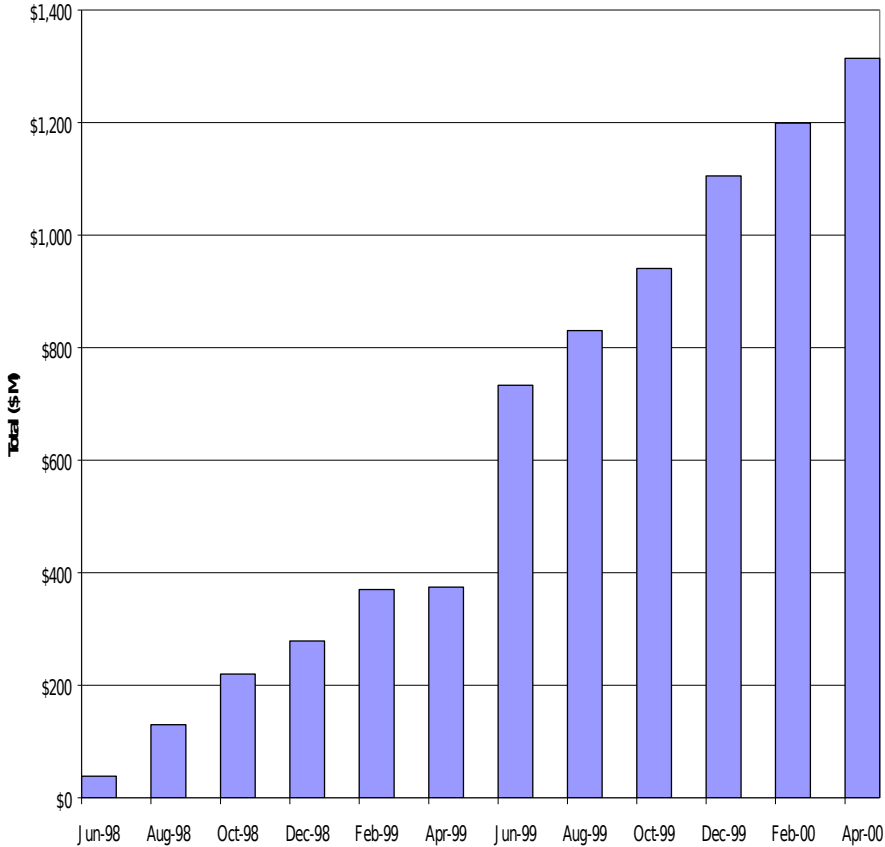


# WInS Statistics

WInS Invoices/Vouchers - All Systems



MOCAS Total \$ (WInS)



# WInS Statistics (May 98 - April 00)

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- As of April 30, 2000
  - Account Requests
    - 3,177 MOCAS
    - 1,961 SAMMS
  
- As of April 30, 2000
  - 258,000+ invoices and vouchers received
  - Total value more than \$4.8 billion
  - 37 batch vendors



# WInS Implementations

## ***CURRENT***

- MOCAS
  - **Commercial Invoices**
  - **Public Vouchers**
  - **Progress Payments**
  - **Batch File Capability**
  - **Army TACOM Interface**
- SAMMS
  - **Commercial Invoices**
  - **Batch File Capability**
- STARS
  - **Commercial Invoices**

## ***FUTURE***

### **STARS**

- **Batch File Capability**
- **Public Vouchers**

**CAPS** (Army)

**IAPS** (Air Force)

**DFAS Garnishments**

# Web-based Invoicing Help

- **WInS Program Management Office** 703-607-0355/2235/3757/3755
- **Getting started**
  - <https://ecweb.dfas.mil/notes.html>
- **Web Application (WInS)**
  - User Manual located at [www.dfas.mil](http://www.dfas.mil) (electronic commerce)
- **Web Server or Network**
  - HQ-SSG/SWEC at Maxwell Air Force Base
  - Sheila Wright 334-416-5845
- **DCMA POC - Kevin Carroll**  
*Paperless Contracting (Boston) - DCMA-IT*
  - (617) 753-3092 DSN 955-3092
  - [kcarroll@dcmde.dla.mil](mailto:kcarroll@dcmde.dla.mil)
- **The DCMDE-IT home page:** <http://www.dcmde.dla.mil/ediec.htm>

- DCMA Performance Goal 2.2.1 - Paperless Contracting - (Supports MRM #2)
- Goal Description: Increase the **number of paperless transactions for the Progress Payment**, Material Inspection and Receiving Report (DD250), and Contract Closeout processes assigned to DCMA
- FY 00 Goal/Target: 90% of all transactions electronic
- CY 00 1st Quarter Results:

|                          |   |
|--------------------------|---|
| <i>Progress Payments</i> | <i>83% of \$ /78% of vol (Mar 00 stats)</i> |
| <i>DD 250s</i>           | <i>53%</i>                                  |
| <i>Contract Closeout</i> | <i>85%</i>                                  |

- Description of Progress to Date:

*Progress Payments      FY 00 Goal 90% \$/90% vol*

- Progress Payments at 87% \$/80% vol (as of Apr 00)
- WInS Progress Payments being deployed and improving metric (over 450 vendors actively using WInS)

*DD 250s              FY 00 Goal 70%*

- WAWF Version 1.3 required to meet goal
- Pilot Testing in Jun-Aug 00
- Deployment to DCMC Sep 00-Feb 01

*Contract Closeout      FY 00 Goal 90%*

- Need JECPO development of WAWF application (in progress)

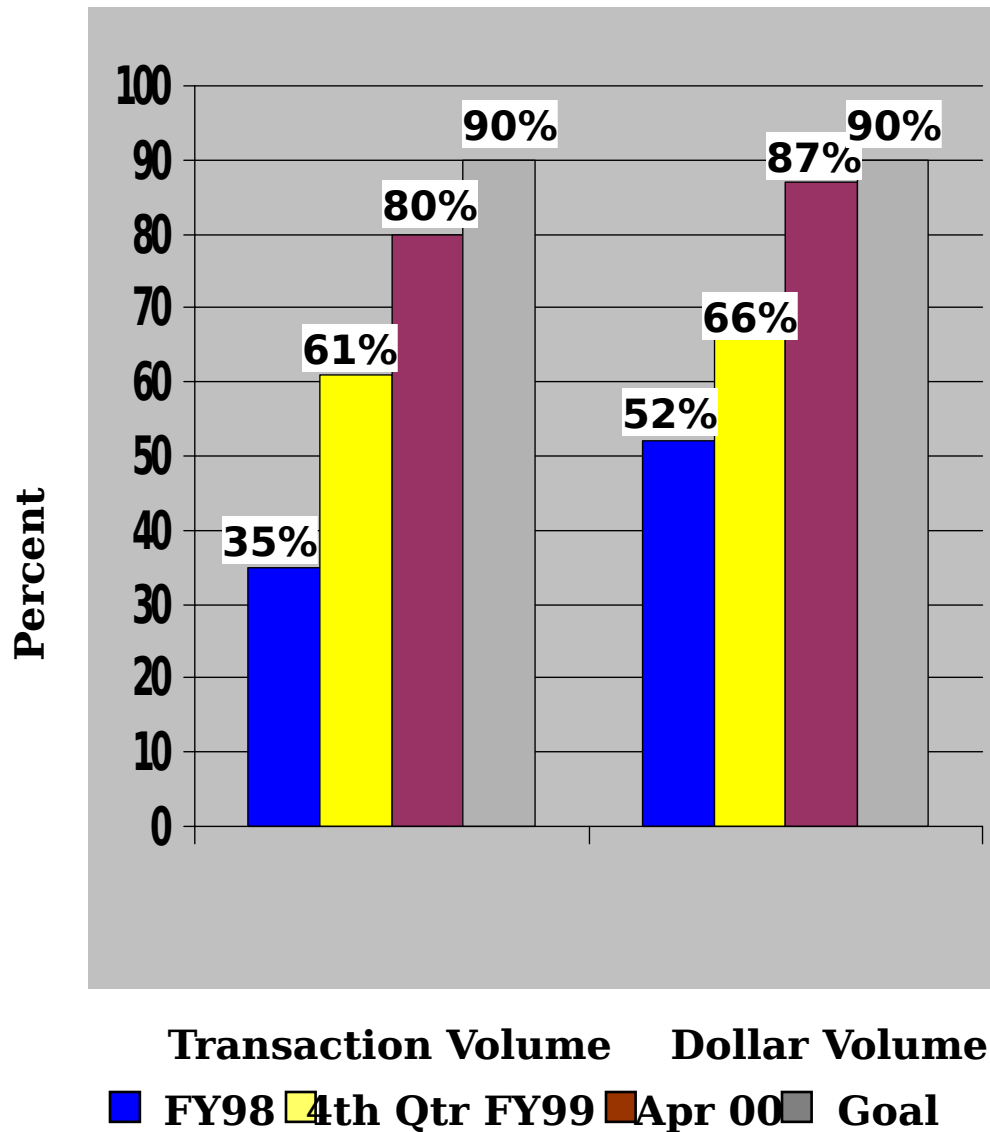
- Prediction of EOY Status/Position:

*Progress Payments - GREEN*

*DD250s and Contract Closeout - RED*

# DCMA Progress Payments

Defense Contract Management Agency



## • Gameplan:

- Standard Electronic Processing System (SEPS) in place (1995)
- VAN/EDI/SEPS approach “maxed out” at 40/60% (large contractors)
- Web Invoicing System (WInS) targets small/middle size contractors

## • Status:

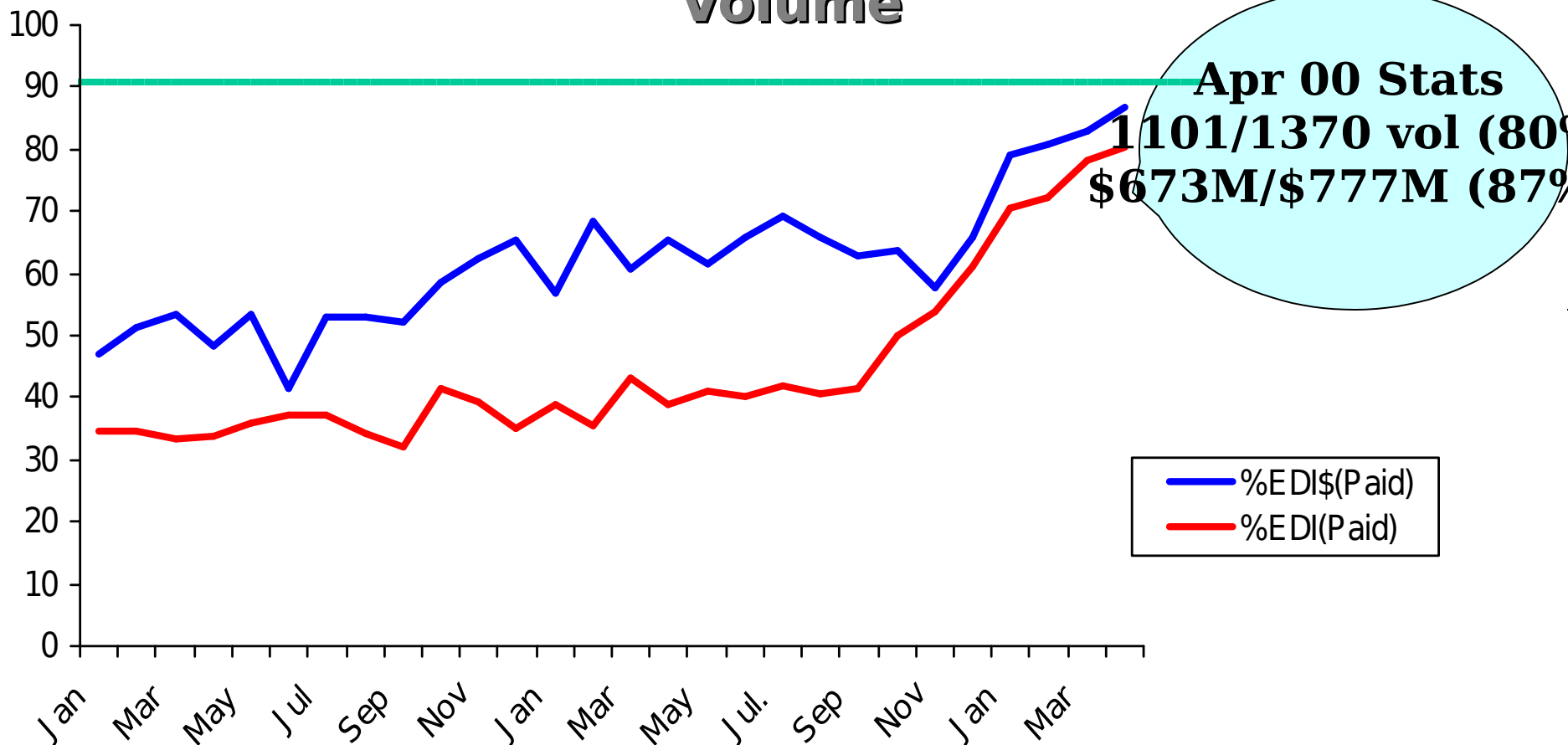
- WInS development complete
- Continuously adding new vendors to WInS
- Significant improvement

## • FY 00 Outlook:

- Working hard to meet

# EDI Progress Payments

## EDI Progress Payments as of Apr 00 FY00 Goals: 90% of Dollars/90% of Volume



**Performance Based Payments (PBPs) are part of the acquisition reforms of FASA, shifting the basis for contract financing from incurring costs to performance.**

# PBPs vs. Progress Payments

|                               | <u>Progress Payments</u>                            |  | <u>Performance-Based</u>         |
|-------------------------------|---|--|----------------------------------|
| <b>Order of Preference</b>    | Considered Customary                                |  | Preferred over other forms of    |
|                               | contract financing                                  |  | customary financing              |
| <b>Approval level</b>         | CO  | CO   |                                  |
| <b>Criteria for Use</b>       | >\$2M contract (large bus.)                         |  | Agreement on terms               |
| <b>Basis for Payment</b>      | PP Rate times Eligible                              |  | <b>Up to 90% of contract</b>     |
| <b>price/delivery</b>         |   |  |                                  |
|                               | Incurring costs (based on actual costs)             | <b>item price</b> (based on predetermined amounts NOT actuals) |                                  |
| <b>Entitlement to Payment</b> | Approved payment request                            |  | Successful completion of         |
|                               | performance event                                   |  |                                  |
| <b>Profit</b>                 | Excluded from payment                               |  | Some profit may be excluded      |
| <b>Combining Financing</b>    | Stand alone (may be supplemented)                   |  | Stand alone (may be              |
|                               | supplemented with advance payments/guaranteed loans |  | with advance payments/guaranteed |
|                               | payments/guaranteed loans                           |  | loans                            |
| <b>Contract Type</b>          | Fixed Price   | Fixed Price  |                                  |
| <b>Accounting System</b>      | Must be Approved                                    |  | Does not require approval        |
|                               | Note: FPIF contract requires cost tracking          |  |                                  |
| <b>Frequency of Payment</b>   | Not more than monthly                               |  | Not more than monthly (may       |
|                               | have  |  |                                  |
|                               | >2 events per month)                                |  |                                  |
| <b>Repayment in Default</b>   | Yes   | Yes  |                                  |



## What are they?

- *Contract Financing Payments based on contractor performance of definitive criteria uniquely established in each contract*
- *The preferred method of Contract Financing*
- *Fully recoverable in the case of default*

- **When Can They Be Used**

- Fixed Price Non-Commercial Contracts*

- When the Contracting Officer finds them practical*

- When the Contractor agrees to their use*

- **When Can't They Be Used**

- In conjunction with Progress Payments*

- Sealed bids*

- Contracts for architect-engineer services, construction or shipbuilding*

## **When would you want to use them?**

When the product and the processes required to deliver the product are *fully understood* by all the parties, such as follow on production contracts

## Why would you want to use them?

- **Government**

- Payment only for performance
  - Can be structured to motivate improvement
  - Potentially easier to administer

- **Contractor**

- Higher ceiling (90% of Price vs 75% Costs)*

- PBPs provide better cash flow when contract is ahead of schedule, underrun or overrun*

- PBPs do not require an approved accounting system or compliance with MMAS*

**How do you establish Performance  
Events/Criteria?**

***PBP terms are part of the total  
negotiation of a fair and reasonable  
contract price***

- **Payment may be based on**
  - Performance measured by objective, quantifiable methods*
  - Accomplishment of defined events*
  - Other quantifiable measures of results*
- **Payment amounts may be established on any rational basis including**
  - Engineering estimates of stages of completion*
  - Engineering estimates of hours or other measure of effort*
  - Estimated projected costs of performance*
- **Events may be severable or cumulative**

## How is a payment processed?

- The contractor presents request for payment to the ACO, no more than monthly, for all performance events completed in the period. The request will contain all required supporting documentation and will be certified by the contractor.
- The ACO verifies completion of performance events, approves request for payment, and forwards the request to the payment office.
- Payment office processes payment PBPs are financing payments for purposes of the Prompt Payment Act

## What happens if

- **There is Government Caused Delay?**

The contracting officer may renegotiate the PBP terms

- **There is a modification to the contract?**

The PBP terms may have to be changed by the contracting officer negotiating the change

- **The contractor fails to make progress, financial condition deteriorates, or doesn't pay his vendors?**

Performance Based Payments can be reduced or suspended for these reasons

## How is surveillance performed?

• The ACO is responsible for determining what reviews are required based on assessment of Government Risk

- **Reviews will include:**

- Verification of performance events*

- Assessment of financial condition*

- Evaluation of progress on the contract*

- **Use of a surveillance team incorporating appropriate technical specialist is encouraged**



## What has the experience been on PBPs?

**The good:** So far, no litigation, no defaults, no bankruptcies, no fraud  
PBPs have been used to improve contractor performance

**The bad:** Some problems when...

- PBP criteria did not match how the product was actually being produced
- Overly strict or financially conservative criteria can negatively impact contractors ability to perform
- Too many performance events dilute motivational value, and increase the administrative burden

**The ugly:**

- Some PBP contracts are front loaded, virtually advance payments

# Performance Based Payments

## Some lessons learned

### Performance Events

***“Performance events must be “integral and necessary part of contract performance”***

#### **Examples of bad events:**

- “Definitization of Contract F12345-99-C-0002: This event is successfully completed upon contractor signature” FAR 32.1004 prohibits using signing of contracts or modifications as performance events.
- “Initiate testing of avionics software” Meaning of “initiate not clear; no criteria for accomplishment.
- “Fabrication complete for forward fuselage; 100,000 hours charged to work order 387 as verified by DCMC.” Completion of time does not mean job is complete.
- “Six months prior to delivery” Completion of time does not constitute performance.
- “Attendance at Management System Review” Does this show true

# Performance Based Payments

## Some Lessons Learned Payment Amounts

***“...financing shall be provided only to the extent actually needed for prompt and efficient performance”  
FAR 32.104(a)***

### **Tips on PBP amounts:**

- Limit amounts to contractor's actual financing needs
  - Obtain expenditure forecasts from the contractor
- Don't use PBP amounts to “induce performance that exceeds the contract requirements”
  - Increases risk to the Government
  - Remember, contractor is already getting 90% of price

# Performance Based Payments

## Some Lessons Learned

### Tangible Value

***“...avoid any undue risk of monetary loss to the Government through the financing.” FAR 32.104(a)***

***“ ...negotiate PBPs that establish payment amounts not expected to exceed the projected tangible value of that property.” (DDP memorandum Nov 9, 1998)***

#### **Tips on PBP amounts:**

- PBPs are secured by title to the work in process
- Need to ensure that amounts are limited to contractor's actual financing needs
- Don't try to “incentivize” contractor with payments (another term for advance payments)
  - We do that with PBP structure, and the 90% rate
  - Increases risk to the Government

## A Successful PBP Contract

***NAVAIR Contract N00019-97-C-0114, for 118  
Aircraft Engines***

### It works because...

- Product and processes were well understood by all the parties
- Performance events are limited to 7 events per engine
- Performance events are clear and understandable, and *integral and necessary part of contract performance*
  - e.g. “Receipt of Vane Casting for LPT Nozzle Segment”
- Performance verification is clear:
  - e.g. “Casting received by GE and documented in IMPACT System”

## DCMC Early CAS significantly reduces risk

- DCMC pre-award support available to you includes...
  - ACOs and Technical Specialists review events, terms and conditions, to ensure they are understood, measure the right things, and reflect actual, significant progress
  - Technical Specialists review performance criteria to ensure they are clear and verifiable
  - Financial analysts/ DCAA review performance payment amounts, ensure they reflect contractor funding requirements, and *aren't advance payments*

## **Federal Acquisition Circular 97-16, Mar 17, 00 made major changes**

- **Elimination of the “Paid Cost Rule”**

- Affects progress payments, and public vouchers
- Related issues:
  - Ensuring subcontract payments made timely
  - Application of the change to existing contracts
    - Actions at the local level should be held in abeyance, pending HQ guidance

- **Subcontractor PBPs and commercial financing payments**

- Permits primes with progress payments or cost reimbursable contracts to use PBPs or commercial financing payments with subcontractors

# Changes to Contract Financing Policies

- **Expansion of use of PBPs to R&D, and competitive solicitations, clarifies use of PBPs**

- Still not permitted in sealed bids
- Requires PBP proposals to be credible, consistent with other aspects of proposal
- Evaluations must question any “front loading” of PBPs

- **Increased threshold for PBPs and progress payments, to \$2M**

- A study showed 60% of progress payment contracts <\$2M, but they accounted for only .63% of progress - payment dollars

- **Limits applicability of PBPs and progress payments on ordering contracts**

- Orders must exceed simplified acquisition threshold

- **Establishes minimum Progress Payment request**



# Changes to Contract Financing Policies

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**For more information on FAC 97-16, see DCMA Policy memorandum 00-180 at:**

<http://www.dcmc.hq.dla.mil/onebook/9.0/9.2/ProgressPaychg4.htm>

# **Paperless and Payment Initiatives**

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**For more information, visit our web  
site...**

[http://www.dcmc.hq.dla.mil/Dcmc\\_o/cbo/finance/Index.htm](http://www.dcmc.hq.dla.mil/Dcmc_o/cbo/finance/Index.htm)

**Or contact me:**

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**Contract Financing and Payment**

**Group**

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